FALL 2002

STATE OF ALASKA

FINANCIAL footnotes

In this issue:

THINKING POSITIVELY IS THE KEY TO SURVIVING TOUGH MARKET TIMES

Positive Mindsets

There's no doubt that the last several months have been a real test of investor confidence. Highly publicized cases of corporate accounting improprieties challenge our trust. The stock market downturn stretching beyond the last two years challenges our hopes for a better financial future. The memory of September 11th, 2001 continues to challenge our spirit.

The more you feel in control of your own financial destiny, the more confident and optimistic you will become. It all starts inside your mind — and that can be a very powerful place!

Positive Mindset: Focus on What You Can Control

Rebalance if necessary. Make a point to thoroughly review your latest Plan account statement. During this current extended stock market downturn, your account balance may show an allocation to stocks that is significantly less than you may want it to be. That means your portfolio may be positioned too conservatively to meet your long-term goals. Rebalancing is accomplished by selling shares in one fund (or funds) and using the proceeds to purchase shares in another fund (or funds) in order to bring your investment mix back in line with your current wishes.[1]

Rethink and revise. If you planned to retire in the next 10 years or less, or retire early, you may need to rethink your goals. Plan to revise your retirement planning to save more, spend less or work longer.

Reduce your deficit. While you can't control the nation's economic outlook, you can control your own. If you've got credit card debt, take the steps to pay it down. Start with the cards with the highest interest rates and pay more than the minimum on all your cards with balances. Vow to stop using credit cards for future purchases.

Protect your future income. You owe it to yourself and family to protect your earning power with disability income insurance and/or life insurance. According to the Consumer Federation of America, over 80% of U.S. workers either have no long-term disability insurance coverage or their coverage is inadequate.

Write a will. If you haven't done so already, now is a good time to formally state your wishes after you've passed away, and make sure those wishes are carried out. You can modify your will as often as you like, for as long as you live. You may also need a durable power of attorney (POA), which formalizes who will make decisions on your behalf should you be unable to do so (see page 4 for more information about writing a will).

Maintain an emergency fund. If you haven't put one together yet, plan to start now. A good rule of thumb is to have at least three months' salary in the bank where you can easily access it for emergencies, such as a leaky roof, broken washer and dryer, or car repairs.

Work on increasing the value of your other major investments. Home improvement projects such as a kitchen or bathroom remodel can help enhance the value of your home. If you have children, think about starting a college savings plan.

Positive Mindset: Keep Your Perspective

Many people may feel like giving up on the stock market and moving out of stock funds or other stock investments. However, this may be one of the best times to add to your investments. A stock market downturn gives you the opportunity to buy more shares of your stock funds at lower prices. With the benefit of tax-deferred compounding and time through your Plan, those shares have the potential to be worth significantly more at retirement!

Things Could Be Worse

The period from January 1973 to September 1974 was one of the worst periods of performance in the history of the

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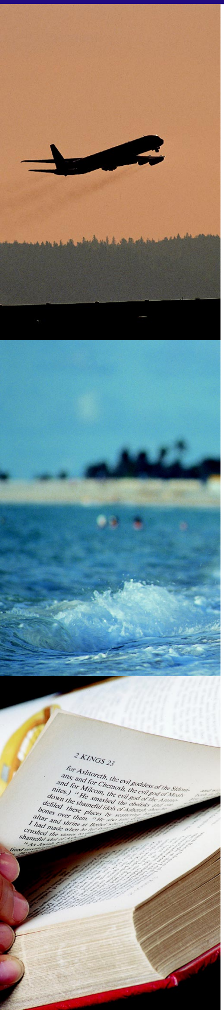

LOOK TO YOURSELF FOR A LITTLE RETIREMENT PLANNING INSPIRATION

Get Inspired

Wouldn't it be great if you had something that you could take out and look at for inspiration from time to time? Something that would keep you focused on the positive, especially during market downturns?

Take some quality time to answer the following. When you're finished, make sure you keep this page handy for easy reference. It will help keep you focused on the long-term and remind you that you're in control of your financial future.

List 4 major goals and/or dreams you have for retirement. Be as specific as possible. For example: Where will you be living? Where do you plan to travel? What new hobbies and interests do you intend to explore or expand upon? How will you help out loved ones financially?

Write in your time horizon until retirement: ______________ years. Estimate how soon you expect to start withdrawing at least some of your retirement savings. The longer you have (10 years or longer), the more likely it is you will be able to ride out stock market volatility and recover from extended market downturns.

Write in your current Plan contribution rate: _______%.

Now, **put in writing how much you will increase this amount to by the end of this year**: _______% (a 1% increase is a very reasonable goal. 2% is even better!) Getting a cost-of-living raise at the end of the year? Give your Plan (and your retirement future) a raise too by increasing your contribution by the same percentage!

What are your retirement goals?

1

2

3

4

Positive Mindset, continued from page 1

stock market. During these 21 months, the value of the S&P 500® Index[2] fell from a high of 121.74 to a low of 60.96 – a loss of almost 50% in value. To make matters worse, there was double-digit inflation as well as an oil crisis. Compared to that, you might say that things now aren't nearly as bad! The S&P 500 has declined "just" 34% over a 28-month period from March 10, 2000 through July 10, 2002.[3]

The Importance of Staying in the Market

A recent study by the Hartford Financial Services Group reinforces the importance of staying the course with stocks over the long-term. The study examined the 31-year period between January 1, 1970 and December 31, 2000, a period during which there were 9 bear markets and 10 bull markets. According to the study, you would have averaged a 13.9% annual return in an S&P 500 Index portfolio during this time.

If you had missed the best 10 days of the market during that period (the top 10 days in which the market had the biggest gains), your average return would have been reduced to 12%. The more "best days" you missed, the lower your return would have been. If you had missed the best 60 days (just 2 months out of a 31-year period), you would have only earned 6.3% per year.

The moral of the story is this: if you're a long-term investor, think carefully before getting out of the stock market!

1 Rebalancing does not insure a profit and does not protect against loss in declining markets. Investors should consider their ability to continue this strategy during period of low or high price levels.
2 The S&P 500 Index is an unmanaged index considered representative of the general domestic stock market and assumes reinvestment of dividends and capital gain distributions. You cannot invest directly in any index.
3 Sources: Motley Fool; Mpower; University of California (Berkley) Department of Economics.

For more information about available investment options in your Plan, including fees and expenses, you may obtain applicable prospectuses and/or disclosure documents from your registered representative. Read them carefully before investing.

007 Bond™

Intrigue. Excitement. Gadgets galore. Welcome to the world of James Bond. Compared to that, the world of bond funds is rather quite ordinary! However, bond funds can play an important role in your investment strategy.

A View to a Bond Fund

Bond funds invest your money in a pool of bonds issued by corporations, governments, or government agencies. The issuers of the bonds in the fund's portfolio are actually borrowing money from the investors in the fund for a specific period of time, known as the **term**. The money they borrow from the investors in the fund is known as the principal. They promise to pay it back with **interest** by a certain date, called the **maturity date**. Here is a brief overview of the two major types of bond funds offered through most retirement plans:

U.S. government bond funds seek current income through investments in high quality U.S. Treasury and government agency debt securities. Portfolios may include: Treasury bills (generally less than 1 year maturities); Treasury notes (with maturities up to 7 years); and Treasury bonds (maturities ranging from 5 to 30 years). Also, government agency debt takes several forms, from farm credit notes to mortgage-backed securities, such as those from the Government National Mortgage Association (GNMA or "Ginnie Mae"), Federal National Mortgage Association (FNMA or "Fannie Mae"), and the Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac").

Corporate bond funds typically seek income through investments in higher-rated, higher-quality corporate bonds. Companies issue these bonds to raise money for expansion, modernization, operating expenses and other ongoing needs.

The Living Daylights

Here is an overview of the risks to be aware of when investing in bond funds:

Market risk — like stock prices, bond prices move up and down. However, the fluctuations tend to be less dramatic in the bond market than in the stock market.

Credit risk — A bond issuer may not be able to keep its promise to pay interest or repay principal. The lower the credit risk, the more likely it is that an issuer will keep its promise.

Interest rate risk — when overall interest rates in the economy rise, bond prices typically fall (and vice versa).

Inflation risk — Your nest egg goal may not be reached if the returns on some bond funds do not outpace the rising cost of living by a wide enough margin.

Bond Funds Are Forever

Well, maybe not forever. But certainly for the long-term! Despite their risks, retirement investors of all ages can potentially benefit from putting some money in bond funds. Because bond funds tend to respond to market influences differently than stock funds, they can help balance out the risks associated with stock investing. In addition, lower-risk bonds funds, such as government and investment-grade corporate bond funds may help protect some of your money from losses during stock market declines. When considering bond funds, keep in mind your overall tolerance for risk, your time horizon, and financial goals for retirement.

Shaken, Not Stirred

Stocks and bonds often respond differently to market downturns. While stocks fell significantly during the four market downturns shown below, bond values rose:

Stock Market Downturn Period	Lehman Brothers Intermediate Government/Corporate Bond Index	S&P 500 Index
From December 31, 1972 to October 31, 1974	+6.17%	-32.99%
From July 31, 1987 to December 31, 1987	+2.97%	-21.39
From June 30, 1990 to October 31, 1990	+2.93%	-14.09
From July 31, 2001 to September 30, 2001	+2.47%	-13.82

Source: American Century Investments, Inc. Past performance is no guarantee of future results. The Lehman Brothers Intermediate Government/Corporate Bond Index is an unmanaged index considered indicative of the broad domestic bond market in general. The S&P 500 Index is an unmanaged index considered indicative of the broad domestic stock market in general.

A COLUMN FOR RETIREES & PRE-RETIREES

Retirement In Sight

Will Power

Creating a will is an important part of your overall financial plan

According to a survey by the American Association of Retired Persons (AARP), less than half of people age 50 to 54 have a will. Unfortunately, without a will (or other way to transfer assets to beneficiaries), state law may end up determining how your assets will be distributed after you die. Depending on the laws of your state, if you have minor children, the court may choose their guardian if your spouse is not living. If you have a life partner but no will, the court could distribute your assets to your nearest relatives, and your partner may not receive anything. Or, if you intended to make a gift to charity, your wishes may not be carried out.

Below are general considerations for a will. State laws may vary widely. A will is a legal document that can have significant tax implications. The following information is not tax or legal advice, and you should consult with an attorney and/or tax advisor when creating your will.

When creating your will, consider ...

- In most states, you must be at least age 18 and of sound mind, which means you understand what a will is, know the extent of your assets and know your intended beneficiaries.
- You could purchase a form or computer software and create a will yourself. However, it's strongly recommended that you hire an estate planning attorney to help you.
- In most states, a will must be witnessed and signed usually by at least two people who aren't related to you and won't receive anything under the will.
- You may want to make a sworn statement and have your will notarized. If your will goes through probate after your death, the probate court can easily validate your will if it was notarized. Otherwise, the court may have to locate witnesses to prove it is valid.
- In most states, you must to appoint an executor, or personal representative, to settle your estate according to your will. The executor delivers the original will to your county's probate court after you die.
- You should review your existing will and consider making a new will if you have a major life change, such as marriage, divorce, a significant change in your net worth, the birth, adoption or death of a child, or if you move to another state.

Some items to put in your will

- Your name.
- A statement indicating that the document is a will.
- A statement revoking all previous wills.
- A guardian's name and one or more alternate guardians in case you and your spouse die for children under 18.
- Your executor's name, since this is the person who will oversee payments of your debts and distribution of any remaining assets from your estate after your death.
- Your specific bequests, which include any designated items or amounts of money you wish to leave to an individual or charity.
- Your general bequests, which include assets not designated for specific individuals that will be passed on to your beneficiaries as part of your estate.
- Your signature and date signed.
- Any other item required by your state.

What happens to the money in your Plan should you die?

Distributions of money from your Plan, any other qualified employer-sponsored retirement plan, or Individual Retirement Account (IRA) normally are handled separately from your will (as are proceeds from any life insurance policy you may have). You name beneficiaries who will receive money from those accounts. The retirement plan administrator will distribute the money to your beneficiaries when the beneficiaries present proof of your death and any other state-required documentation.

Make sure to review your beneficiary designations should you have any major life changes, such as marriage or divorce, and to keep your beneficiary designations current with your Plan's administrator. You'll also want to keep your information (address, beneficiary(ies), etc.) current with the administrator of any Plans you may have from previous employers.

For account or investment-related issues, contact:

www.state.ak.us/drb

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